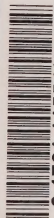


ECONOMIC COUNCIL OF CANADA

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economic and social indicators
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~~///~~ **ECONOMIC AND SOCIAL INDICATORS 1975**

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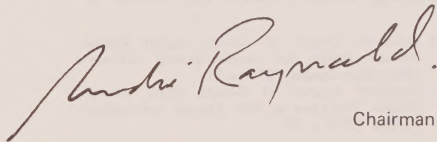
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After a wave of economic expansion, which reached its peak in 1973, the Canadian economy entered a period of much weaker economic performance. Since the second quarter of 1974, the gross national product has grown very little or declined from quarter to quarter. As a result, the gap between actual and potential output has widened significantly, after having been virtually eliminated in 1973. In spite of slower economic growth, price increases accelerated in 1974, beyond the high rates recorded in 1973. Strong cost-push pressures appear to be responsible for the persistence of inflationary trends in 1974.

The slowdown in 1974 reflected the pronounced decline in aggregate productivity growth. The net external demand component was a major drag on the economy. Exports decreased in 1974, while imports, stimulated by continued strength in domestic demand, grew

strongly. Internal demand was well sustained by increases in government spending and in business investment in machinery and equipment. The slower progression in consumer expenditures and the actual decline in residential construction were largely due to smaller increases in real personal disposable income. Despite the slowdown in activity, employment continued to increase, and unemployment marginally declined.

In the following pages, the Economic Council's appraisal of Canadian economic performance is summarized, and revised performance indicators for the 1974-78 period are outlined. Three social indicators are also presented as part of the indicator framework.



Chairman

READER'S NOTE

In the *Eighth Annual Review*, the Economic Council proposed "the development of a set of statistical measures to monitor the changing conditions of our society over a broad spectrum of concerns."¹ The economic performance indicators introduced by the Council in its *Ninth Annual Review* were designed to provide a framework for the assessment of past performance and future growth patterns and to serve as temporary objectives or "medium-term targets."² These indicators, which are revised and updated annually, are reference points for attainable economic performance over the medium term. As such, they are an integral part of the Council's approach to economic policy-making, which involves the setting of

targets, assessment of economic performance, formulation of recommendations, and the harmonization of public and private economic decision-making.


In the *Eleventh Annual Review*, social indicators were introduced to broaden the scope of the indicator framework and to provide monitoring devices in three important socio-economic areas: health, housing, and urban air quality.³ The economic performance indicators and the social indicators, although discussed separately here, are in principle part of the same set of measures of the social system.

1 Economic Council of Canada, *Eighth Annual Review: Design for Decision-Making* (Ottawa: Information Canada, 1971), p. 71.

2 Economic Council of Canada, *Ninth Annual Review: The Years to 1980* (Ottawa: Information Canada, 1972), p. 92.

3 Economic Council of Canada, *Eleventh Annual Review: Economic Targets and Social Indicators* (Ottawa: Information Canada, 1974).

PERFORMANCE INDICATORS



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The areas for which economic performance indicators are used by the Economic Council to assess performance are listed in the table, and targets are presented for the 1974-78 period.

In the following charts, the 1978 target level implicit in the average rate of change proposed in the *Twelfth Annual Review* is shown as a black dot.

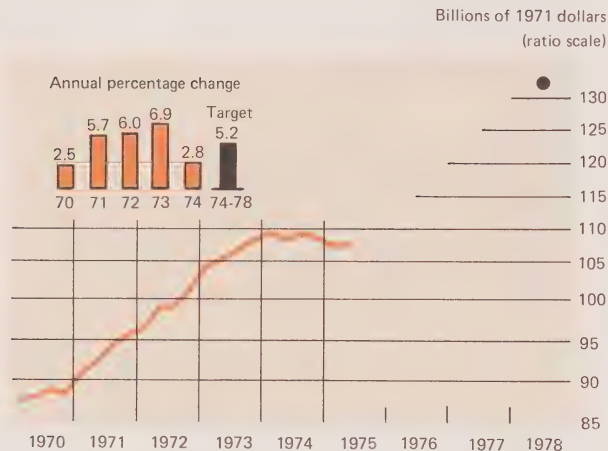
	Proposed targets, ¹ 1974-78 ²
Gross national expenditure	5.2
Consumer expenditure	5.5
Total fixed investment	5.4
Machinery and equipment	7.9
Nonresidential construction	6.0
Residential construction	0.6
Government current expenditure	4.3
Exports	4.2
Imports	4.8
Real disposable income per capita	4.8
Output per person employed	2.2
Output per person employed in manufacturing	3.4
Employment	3.1
Differential between Canadian and foreign prices ³	±0.5
Housing starts (thousands per year)	240
Unemployment rate in 1978 (per cent)	4.5
Unemployment rate for prime labour force in 1978 (per cent)	3.5

1 For gross national expenditure and its components, as well as real disposable income and productivity, the targets are average annual percentage changes, calculated in 1971 dollars. The indicator for employment measures the percentage change in the number of persons employed.

2 1974 is the base year to which the average annual percentage changes apply; 1975 is a year of transition, for calculation purposes; 1976 to 1978 are the years to which the indicators apply, for policy purposes.

3 Absolute difference between the percentage change in the CPI in Canada and the percentage change in the weighted index of consumer prices in the United Kingdom, the United States, West Germany, Japan, France, and Italy. The differential is expressed in percentage points.

4 gross national expenditure

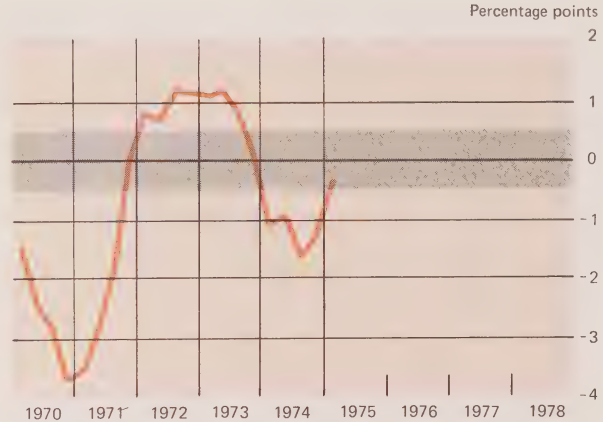


Economic growth slowed down appreciably in Canada in 1974 as a result of the marked deterioration in the external environment, the slower progression of consumer spending, and the drop in housing starts.

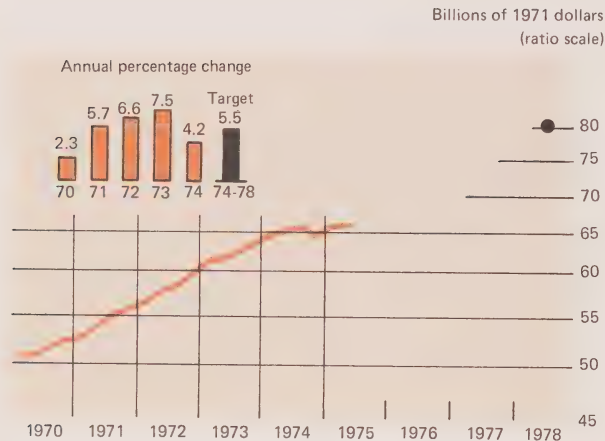
The target rate of 5.2 per cent per annum proposed for the 1974-78 period is aimed at reducing the GNP gap and bringing the unemployment rate down to a level of about 4.5 per cent by 1978. If the target were achieved, the economy would recover strongly in 1976-78 from the depressed level of 1975.

Since early 1974, the relative price indicator has recorded large negative values, implying that price increases have been lower in Canada than in our six major trading partners. This relative improvement has not been attributable to lower rates of domestic price increases but rather to stronger price accelerations abroad.

Although our projections show that price increases in Canada will slow down appreciably between 1975 and 1978, it appears that some of Canada's major trading partners may record an even more pronounced easing of their inflationary pressures. The achievement of a better price performance would call for a marked moderation in our costs of production.



6 consumer expenditure

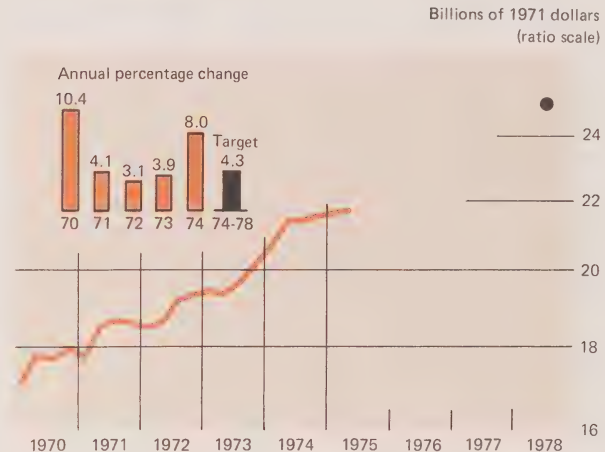


The general deceleration in consumer spending in 1974 resulted mainly from a slower progression in expenditures on durable goods, which in turn reflected a net slowing-down in real disposable income gains.

Stimulants to private consumption through personal income tax reductions seem to be necessary to bring the average annual rate of growth in consumer spending to 5.5 per cent for the 1974-78 period. This compares with an average rate of about 6.0 per cent during the period from 1971 to 1974.

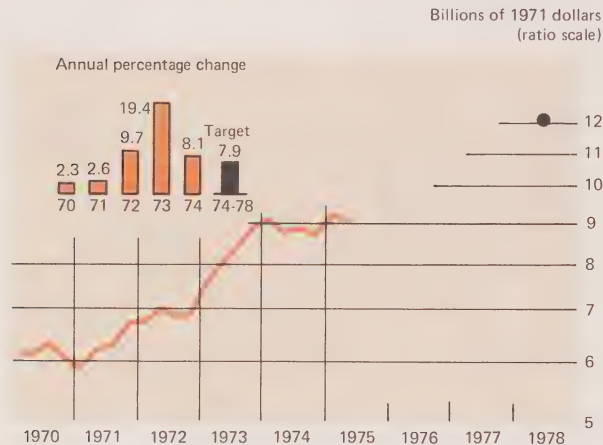
Government current expenditure on goods and services grew at a high rate in 1974, mainly because of a marked increase in operating expenditures and a strong advance in defence expenditures.

Our target of 4.3 per cent for real government current expenditure implies that a lower rate of increase than observed in the recent past should be recorded for the period 1974-78. This implies a marked slowdown in the progression of public sector employment.



8 business fixed investment

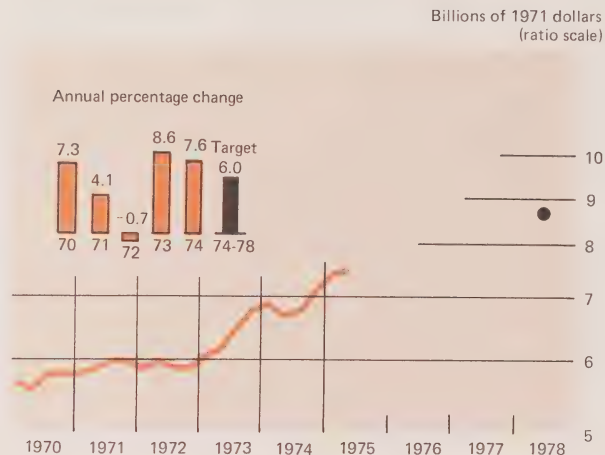
machinery and equipment



The main source of increase in fixed investment in 1974 was business investment in new machinery and equipment. The other component of business investment — nonresidential construction — grew at a rate substantially below what we had anticipated. This shortfall is partly attributable to construction strikes, which seriously disrupted nonresidential construction projects. However, largely as a result of the slowdown in economic activity, physical capacity constraints eased notably in 1974.

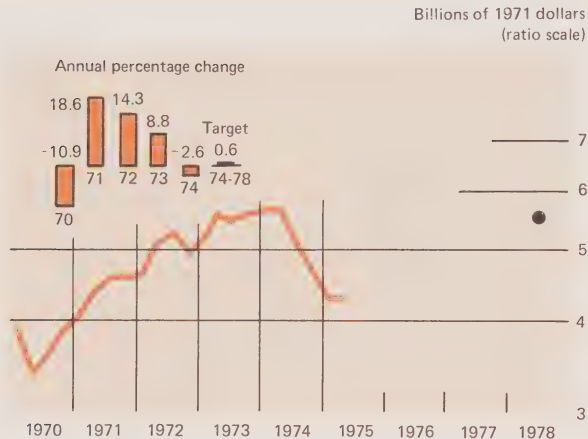
nonresidential construction

The targets for business investment in machinery and equipment and non-residential construction were set at 7.9 per cent and 6.0 per cent, respectively, for the 1974-78 period. The relatively high indicators are designed to prevent productive capacity constraints from re-emerging once expansion resumes, and hence to avoid further inflationary pressures.



10 residential construction

investment



The dampening influence of high mortgage rates, the reduced availability of funds, shortages of serviced land in certain urban areas, and a slowdown in the progression of real disposable income were among the main factors responsible for the decline in the number of housing starts in 1974. This was accompanied by a decline in the housing vacancy rate.

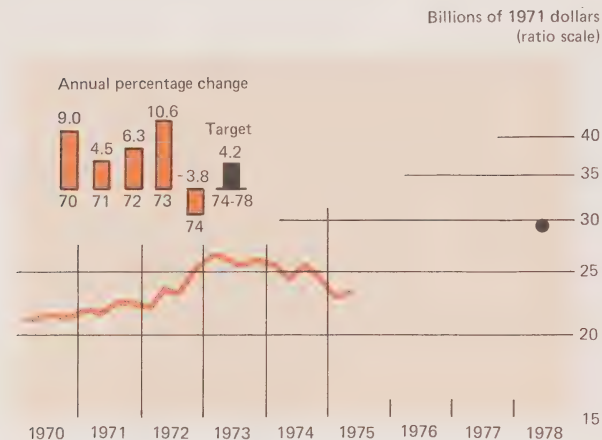
housing starts

The target of 240,000 starts per annum was established for the 1974-78 period, with the objectives of maintaining vacancy rates at appropriate levels and securing a better balance between new household formation and the availability of housing units. To reach this target, an average annual growth rate of 0.6 per cent in residential construction investment would be required over the period.



12 trade performance

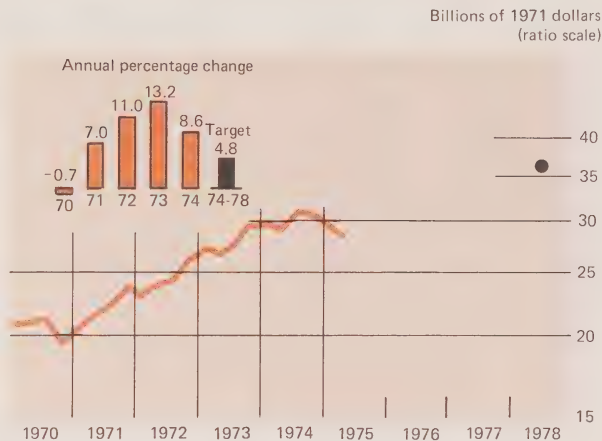
exports



As a result of the recession in the U.S. and overseas economies, Canadian exports declined in 1974 while imports continued to rise, mainly because economic activity rose moderately in Canada during that year.

imports

The target rate of 4.2 per cent per year for exports is based on the assumption that the U.S. and overseas economies will grow strongly from 1976 to 1978. The expected recovery of the Canadian economy, and the projected strong performance of business investment over the indicator period, should generate a relatively strong increase in imports, and the value of the indicator should reach an average rate of increase of 4.8 per cent annually.

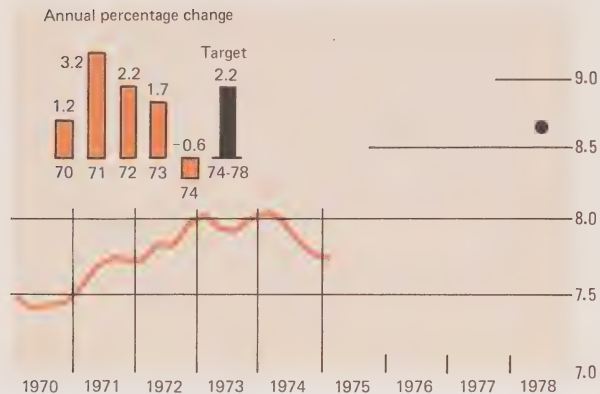


14 productivity

output per person employed

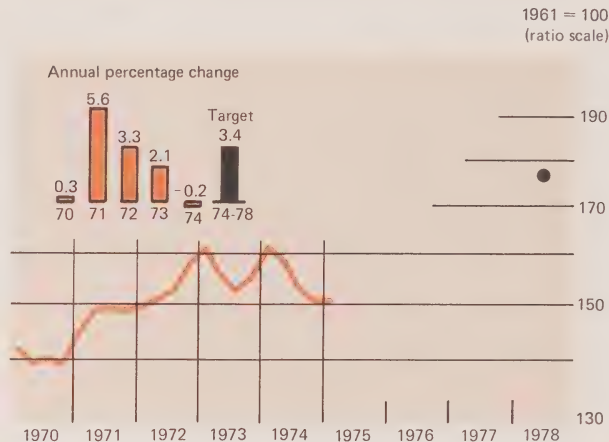
Thousands of 1961 dollars
(ratio scale)

Productivity in the economy as a whole
and in manufacturing was lower in 1974.



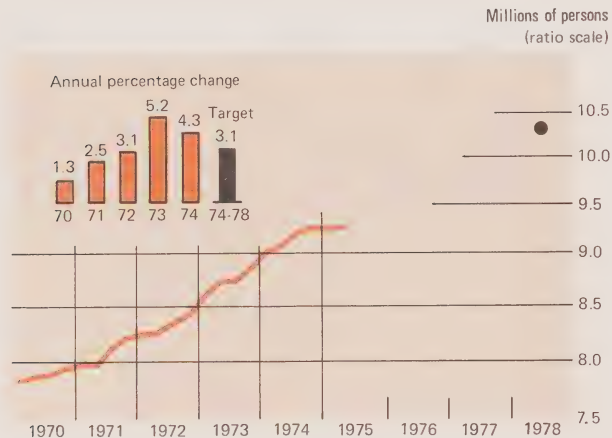
output per person employed in manufacturing

The targets for productivity improvement over the 1974-78 period are set at 2.2 per cent overall and 3.4 per cent for manufacturing. These values represent annual averages for the 1974-78 period and contain the negative productivity changes anticipated for 1975. Excluding 1975, the implicit productivity increase required is 3 per cent for the economy as a whole and close to 5 per cent for manufacturing.



16 the labour market

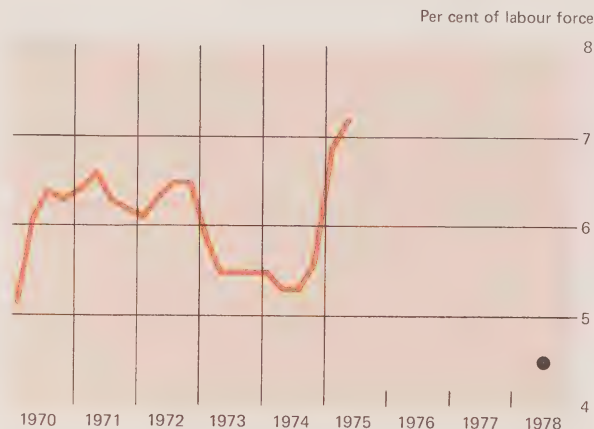
employment



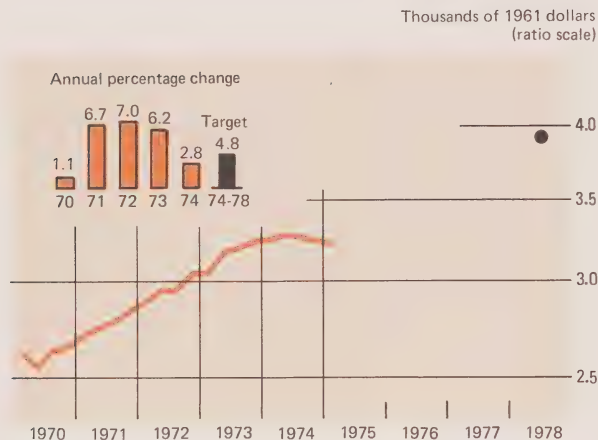
Despite a marked slowdown in overall economic growth, employment continued to rise at a high rate in 1974. The increase in employment outpaced the expansion of the labour force, resulting in a decline of the aggregate unemployment rate.

unemployment rate

In order to bring the aggregate unemployment rate down to a level of 4.5 per cent by 1978, the increase in employment should reach a target of 3.1 per cent per annum during the 1974-78 period. The reduction in total unemployment should in turn be accompanied by a decline to 3.5 per cent in 1978 in the unemployment rate for males aged 25 to 54 — a new indicator introduced this year to monitor labour market developments.



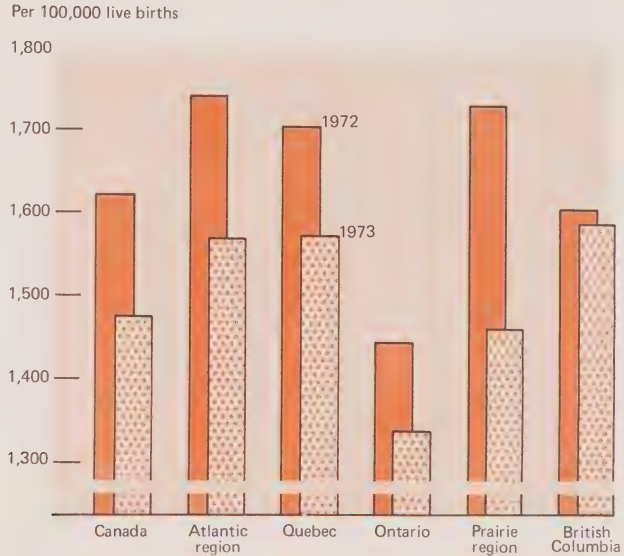
18 real disposable income per capita



Gains in real disposable income per capita were substantially lower in 1974 than in the previous three years, on account of the general slowdown in economic activity and the rapid increases in prices.

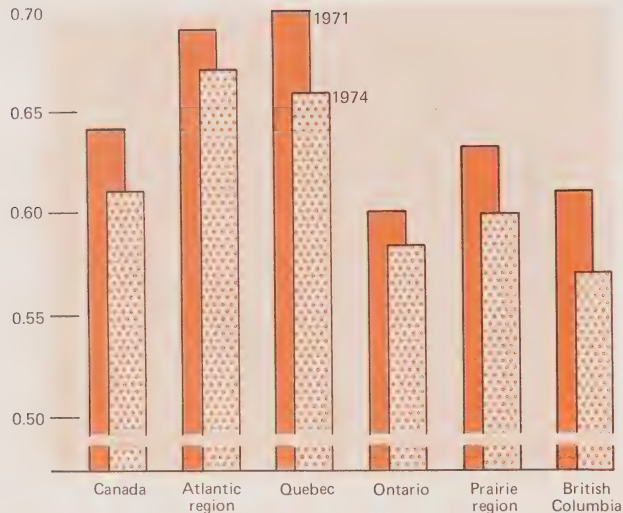
The indicator for real disposable income per capita calls for an average annual rate of growth of 4.8 per cent over the 1974-78 period. The conjunction of cyclical recovery and favourable fiscal policy to keep the economy on its upward trend is a prerequisite to the attainment of this target.

The infant mortality rate dropped considerably between 1972 and 1973 in all five regions of Canada. A projection of the infant mortality rate, based on the historical trends of various causes between 1951 and 1972, suggests that the rate achieved in 1973 would not have been achieved until 1976 had these trends continued unchanged.



22 housing: crowding index

Crowding index
(Number of persons per room)



The crowding index for Canada decreased notably between 1971 and 1974. This favourable development was the result of a decline in the average number of persons per household, which more than offset the much smaller decline in the average number of rooms per dwelling.

The values of the city pollution index tended to decrease in 1974 for those cities with the highest average values in 1972-73 (with the exception of Windsor) and to increase for those cities with the lowest average values. At the national level, the urban air quality indicator rose between 1973 and 1974 — a reversal of the trend observed over the 1971-73 period, when the value of the indicator declined.

(Impact units per capita)

